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MINUTES
ECONOMIC POLICY COUNCIL

June 5, 1985
1:00 p.m.
Roosevelt Room

Attendees: Messrs. Baker, Baldrige, Brock, Sprinkel, Dam, Darman, Norton, Boggs, Wright, Svahn, Kingon, Porter, Smith, Khedouri, Poindexter, Mulford, and Robinson, Ms. Dole, Ms. McLaughlin, and Ms. Risque.

1. Section 301 Citrus Petition

Ambassador Smith outlined the basic elements of the Section 301 citrus petition. The EC has discriminated against citrus exports from the U.S. since the late 1960's by charging them higher tariffs than those on citrus imports from Mediterranean countries.

A GATT dispute settlement panel unanimously found that this EC practice distorted competition in oranges and lemons and recommended that the EC reduce its most-favored-nation tariff rate on these products. The EC, however, has adamantly refused to accept the panel's finding or recommendation or to negotiate a compromise solution.

Ambassador Smith noted that there is great congressional interest in this issue as an indicator of how well the GATT dispute settlement process works and the extent to which the U.S. will protect its legitimate interests.

He indicated that the interagency Trade Policy Review Group has recommended retaliation on pasta because it is one of the four products on which we have won dispute cases in the GATT with the EC. The EC has refused to settle any of them. By retaliating against pasta we kill two birds with one stone. He also noted that we have negotiated 54 times with the Europeans on citrus and that the value of the citrus involved is estimated at \$48 million annually.

The Council's discussion focused on the appropriateness and magnitude of the proposed retaliation, the likelihood of retaliation by the EC, the current mechanisms for a constructive dialog with the EC on trade issues, the perception in the Congress if the Administration fails to act, the statements of U.S. officials to their European

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counterparts at the recent multilateral ministerial meeting, the composition and character of the current European Commission, and alternative forms for communicating the U.S. decision.

The discussion also included consideration of the subsidized sale of wheat to Algeria, the dangers of escalating the level and significance of the U.S. response, the recent letter from Secretary Shultz to the European Commission and member states on the issue in April, and the likelihood that the Congress will rewrite the Section 301 provisions if the Administration fails to act in this case.

Decision

The Council unanimously approved recommending to the President that he retaliate under Section 301 against European Community discrimination against citrus exports from the U.S. by increasing duties on U.S. imports of pasta products from the EC until the citrus issue is resolved or the EC provides adequate compensation.

The Council requested the Office of the U.S. Trade Representative to prepare a draft letter from the President that might accompany the announcement of his decision. The letter would explain the reasons for the U.S. action and emphasize the need for us to resolve more completely and promptly the outstanding trade issues between the United States and the European Community.

2. U.S.-E.C. Trade Relations

The Council also briefly discussed the more general state of U.S.-E.C. trade relations agreeing that there is a need for a strategy paper that would focus on: (1) the substance of the trade agenda between the U.S. and the E.C. clarifying our priorities, objectives, and strategy for achieving them; and (2) the range of procedural devices that might be used to improve the current set of arrangements for resolving trade issues between the U.S. and the E.C.

Secretary Baker requested that the Office of the U.S. Trade Representative and the Department of State jointly prepare a strategy paper promptly for EPC consideration.

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3. U.S.-E.C. Steel Discussions

Secretary Baldrige reported that he had met with E.C. Commissioner DeClercq to establish parameters for the upcoming steel negotiations. In exchange for EC commitments to negotiate, the U.S. is prepared to grant a special 100,000 ton extraordinary allocation to the EC for supplying pipe and tube.

This allocation will not be made until the European Council of Ministers has provided the EC Commission with the necessary negotiating authority.

The agreement includes:

- (1) EC agreement to begin immediately discussions to license and restrain an unspecified number of "consultation" products. These negotiations are to be concluded by July 15, 1985.
- (2) The EC will also begin negotiating an extension of the 1982 carbon steel arrangement. These negotiations are to be concluded by October 30, 1985.
- (3) The U.S. and the EC will begin negotiating an extension of the pipe and tube arrangement which is not scheduled to expire until the end of 1986.

If there is no resolution of these issues according to the agreed upon schedule the U.S. will take unilateral action through Customs.

Decisions

The Council agreed with Secretary Baldrige's recommendation that the Office of the U.S. Trade Representative have responsibility for undertaking these negotiations.

The Council also agreed on the need to provide the President with a full-scale update on the status of the steel program he announced on September 18, 1984.